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R. J. Reynolds Tobacco Company

Winston-Salem, N.C.

ANNUAL REPORT

1948

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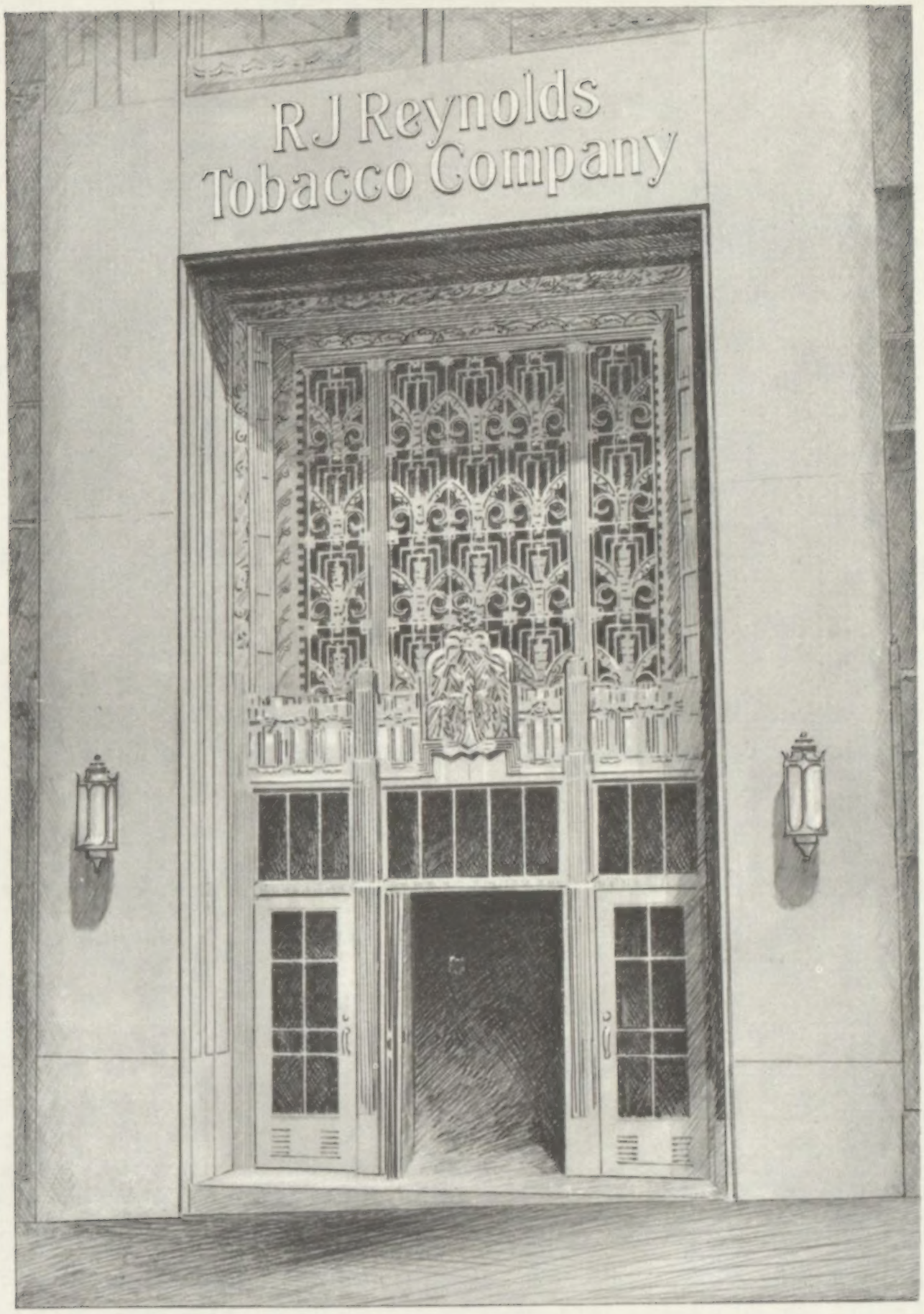

R J Reynolds
Tobacco Company

Summary of Financial Data for 1948

Sales and Earnings

Net Sales	$715,812,640
Net Earnings	$ 34,617,203
Earnings as a percentage of Net Sales	4.83%
Earnings per share on 750,000 shares of Preferred Stock	$ 46.15
Earnings per share on 10,000,000 shares of common stocks after Preferred Stock dividends paid	$ 3.26

Disposition of Net Earnings

Dividends on 490,000 shares of Preferred Stock, 3.60% Series	$ 1,764,000
Initial dividend on 260,000 shares of Preferred Stock, 4.50% Series	$ 230,608
Dividends on 10,000,000 shares of common stocks, at $2.00 a share	$ 20,000,000
Amount of Net Earnings retained for future requirements	$ 12,622,595

Balance Sheet Items

Total Assets	$530,698,144
Current Assets ($497,691,441) less Current Liabilities (110,462,693)—Working Capital	$387,228,748
Funded Debt	$150,000,000
Capital Stock	$175,000,000
Surplus—Undivided Profits	$ 94,186,822

R. J. REYNOLDS TOBACCO COMPANY
Winston-Salem, North Carolina

To the Stockholders:

Net earnings of the Company in 1948 were $34,617,203, being 4.83% of the year's net sales of $715,812,640, a new high sales volume for the Company. In 1947 net earnings were $32,132,186.

After deduction of dividends on the Preferred Stock, net earnings in 1948 available for the common stocks amounted to $3.26 a share, compared with $3.03 a share in 1947. Dividends paid on the common stocks aggregated $2.00 a share in 1948, the same as in 1947, and consisted of four quarterly interim dividends of 45c each and a year-end dividend of 20c.

CAMEL cigarette shipments for 1948 exceeded those for any previous year. Shipments of smoking tobaccos, including PRINCE ALBERT, were greater than for 1947, while chewing tobacco shipments, in line with the trend of the industry, were less.

Leaf Tobacco and Cigarette Prices

By far the largest element of cost for the Company, other than Federal stamp taxes, is leaf tobacco. The price of leaf tobacco has more than doubled since 1940. The Company's purchases during 1948 of tobaccos out of that year's Flue-cured and Burley crops represent the highest average costs ever experienced by the Company for those types of tobaccos. Based on purchases made up to the end of the year, the indications are that the cost of leaf tobacco for cigarettes as charged into manufacturing operations will be somewhat higher in 1949 than in 1948. Leaf tobacco is carried in inventory and charged into manufacturing operations on the basis of average cost, an accounting method which has long been followed by the Company and by the industry generally. Under that method, each purchase of leaf tobacco is averaged in, grade by grade, with like tobacco on hand, thereby establishing an average cost for each grade.

On July 29, 1948 the Company increased its list price of CAMEL cigarettes from $7.35 a thousand to $7.75 a thousand, this being the first increase since October, 1946. The list price is subject to a trade discount of 10% and a cash discount of 2%. After these discounts, the increase in price amounts to about 35 cents a thousand cigarettes or about 7/10 of a cent for a package of 20 cigarettes. Notwithstanding greatly increased costs in recent years, the Company's price for CAMEL cigarettes, exclusive of advances caused by increased Federal stamp taxes, has advanced, during the past twelve years, only about 1 2/3 cents for a package of 20 cigarettes.

Financing

In October, 1948 the Company issued $26,000,000 par amount of Preferred Stock, 4.50% Series and $60,000,000 principal amount of 3% Debentures, due October 1, 1973. The net proceeds received from this financing were applied to the payment of short-term notes outstanding under the Company's stand-by credit agreement with fourteen banks. By the terms of this credit agreement, the aggregate credit avail-

able thereunder was automatically reduced from $150,000,000 to $90,000,000 when the Debentures were issued and sold. The $90,000,000 credit under the agreement is available to the Company through June, 1951.

Working Capital At December 31, 1948 the total of the Company's current assets was $497,691,441 and the total of its current liabilities was $110,462,693, or at a ratio of 4.5 to 1. At the end of 1947 current assets aggregated $430,381,662 and current liabilities were $134,709,512, a ratio of 3.2 to 1. At the end of 1948 the net working capital, the excess of current assets over current liabilities, was $387,228,748 compared with $295,672,150 at the end of the previous year. The higher ratio of current assets to current liabilities and the increase in net working capital resulted principally from the additional capital obtained during the year through the issuance of additional Preferred Stock and of Debentures. The largest item included in current assets is inventories which totalled $459,696,280 at the end of 1948 compared with $400,002,998 at the end of the previous year. Substantially all of this increase in inventories is in leaf tobacco and is accounted for by the greater quantities of leaf tobacco required for the Company's expanding business and by increased prices paid for leaf tobacco.

Fixed Assets During 1948 additions to the Company's plant and equipment were made at a cost of $6,538,325 and depreciation totaling $1,805,931 was charged against earnings. Fully depreciated machinery and other items representing a cost of $2,486,426 were removed from operation and corresponding reductions were made in the gross plant and depreciation accounts. The net plant account at the end of 1948 was $29,627,921 compared with $24,968,661 at the end of 1947. All of the machinery used by the Company in the making, packing and wrapping of its cigarettes is of the latest design and most efficient type.

Except for erection of some additional tobacco storage warehouses and completion of certain projects now under way, the Company is not presently undertaking further plant construction. In the opinion of the management, the additions and improvements made in recent years and those yet to be completed under present plans will result in the Company's having adequate facilities to take care of further substantial expansion of its business.

The valuable brands, trade-marks and good will of the Company are carried as previously at the nominal amount of $1.

Stockholders The holders of the Company's stocks at the end of the year totaled 73,437, without allowing for duplications resulting from a holder having more than one class of stock. Of the holders, 61,040 held common stocks and 12,397 held Preferred Stock. Stockholders are located in every one of the forty-eight states, the District of Columbia and in many foreign countries, and include men and women in practically all walks of life as well as religious, educational, charitable and medical institutions, foundations, pension funds, fiduciaries and insurance companies. Very importantly, stockholders include about 2,000 employees of the Company.

Employees Further wage increases made during the year raised the Company's straight-time hourly average rate for manufacturing employees to a level where at the end of the year it was over

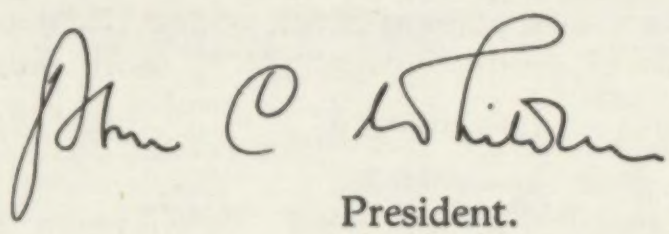
100% greater than the rate at the end of 1940. The Company in the latter part of the year adopted and put into effect for all of its full-time regular employees a new Hospital and Surgical Service Plan which affords the employees and members of their families greater protection in the event of need for hospitalization or surgical services than did the previously existing hospitalization plan. The Company's Group Life, Health and Accident Insurance Plan, its Employees' Retirement Plan and its Vacation Plan have been continued in effect.

At the end of the year there were 17,196 persons employed by the Company of whom 12,580 were regular employees and 4,616 seasonal workers. There were thus approximately 427 stockholders for every 100 employees. On the basis of the Company's investment in inventories and physical plant, the average amount of capital behind an employee's job was $29,471.

Of the Company's regular employees, 30% have been with the Company continuously for 20 or more years, 53% for 10 or more years and 64% for 5 or more years.

The continuing high level of taxes imposed by the Federal and State Governments on income is a matter that vitally affects the Company, as it does all other business and all individuals, whether investors, wage earners, farmers, professional or business people, or consumers. In 1941 and each year thereafter the Company's payments of taxes on income have been in amounts equal to at least 75% of its net earnings. In 1948, as in 1946 and 1947, the Company's payments of taxes on income exceeded the total dividends paid its stockholders.

Company operations, like those of every other business and every person, have continued to be affected by the diminished purchasing power of the dollar as contrasted with the period prior to the war. The higher costs of materials and supplies, as well as of operations, together with the additional requirements of the business of the Company as it has expanded in recent years, have resulted in a need for several substantial increases in the capital resources of the Company. To meet these conditions the Company in each of the years 1945 to 1948, inclusive, augmented its capital through the issuance of Preferred Stock or long-term obligations. The total proceeds of the securities so issued aggregated $225,000,000. During the same period about $35,000,000 of earnings for those years were retained in the business. Through that financial program the Company has met satisfactorily all of its present requirements of additional capital and, at the same time, has preserved a desired relationship between capital stock and borrowed funds.



President.

January 18, 1949.

R. J. REYNOLDS T

Balance Sheet, I

ASSETS

Current Assets:		
Cash	$ 17,305,769.60	
Accounts receivable (net) for merchandise sold	20,689,391.03	
Leaf tobacco, supplies, manufactured product, etc.—at average cost	459,696,280.44	
Total Current Assets		$497,691,441.07
Real Estate, Machinery and Equipment—at cost	$ 47,095,995.22	
Less depreciation, obsolescence, etc.	17,468,073.37	
Net Real Estate, Machinery and Equipment		29,627,921.85
Other Assets:		
Investments in non-competitive companies	$ 25,000.00	
Sundry receivables and deposits	1,730,581.70	
Brands, trade-marks and good will	1.00	
Prepaid expenses and deferred charges	1,623,197.72	
Retirement and Insurance Investment Fund (consisting of 200,000 shares of Common Stock of the Company)	$ 10,120,000.00	
Less reserve	10,119,999.00	1.00
Total Other Assets		3,378,781.42
		$530,698,144.34

TOBACCO COMPANY
December 31, 1948

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable	$ 5,306,461.39	
Notes payable	77,000,000.00	
Accrued Federal and State taxes	27,065,349.90	
Sundry accrued accounts	1,090,881.56	
TOTAL CURRENT LIABILITIES		$110,462,692.85
FUNDED DEBT (Footnote A):		
2½% Promissory Notes (due 1950-72)	$ 90,000,000.00	
3% Debentures, due October 1, 1973	60,000,000.00	
TOTAL FUNDED DEBT		150,000,000.00
RESERVES:		
For retirement and group insurance costs	$ 548,628.66	
For contingencies	500,000.00	
TOTAL RESERVES		1,048,628.66
CAPITAL AND SURPLUS:		
Preferred Stock—Par $100:		
Authorized and issued 750,000 shares		
3.60% Series	$ 49,000,000.00	
4.50% Series	26,000,000.00	
Common Stock—Par $10:		
Authorized and issued 1,000,000 shares	10,000,000.00	
New Class B Common Stock—Par $10:		
Authorized 13,000,000 shares		
Issued 9,000,000 shares	90,000,000.00	
	175,000,000.00	
Surplus—Undivided Profits (Footnote A)	94,186,822.83	
TOTAL CAPITAL AND SURPLUS		269,186,822.83
		$530,698,144.34

Statement of Income

Year Ended December 31, 1948

NET SALES		$715,812,640.62
OTHER INCOME:		
Dividends, interest and sundry		1,472.34
TOTAL INCOME		715,814,112.96
LESS:		
Cost of goods sold and other charges, including selling and general expenses, but exclusive of items below	$646,536,864.47	
Provision for depreciation and obsolescence	1,805,931.31	
Interest charges	4,152,203.55	
Debenture expense amortization	9,878.09	
Provision for participation in profits under Article XII of By-Laws payable to 1,769 officers and employees	2,370,103.96	
Provision for Federal and State taxes on income	26,321,928.54	
TOTAL INCOME DEDUCTIONS		681,196,909.92
NET EARNINGS FOR YEAR		$ 34,617,203.04
Dividends paid on Preferred Stock		$ 1,994,608.47
NET EARNINGS APPLICABLE TO COMMON STOCKS		$ 32,622,594.57

Statement of Surplus

Year Ended December 31, 1948

SURPLUS—UNDIVIDED PROFITS at beginning of year		$ 82,489,386.80
ADD:		
Net earnings for year		34,617,203.04
		117,106,589.84
DEDUCT:		
Cash dividends on—		
Preferred Stock—		
3.60% Series	$ 1,764,000.00	
4.50% Series (initial dividend)	230,608.47	
Common stocks (including 200,000 shares of Common Stock held in Retirement and Insurance Investment Fund) at $2.00 per share, consisting of four quarterly interim dividends of 45c each and a year-end dividend of 20c	20,000,000.00	21,994,608.47
Charges related to issuance of Preferred Stock, 4.50% Series		925,158.54
SURPLUS—UNDIVIDED PROFITS at end of year (Footnote A)		$ 94,186,822.83

F. S. HILL, Treasurer.

Footnote A: The aggregate principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1950-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

So long as either of its 2½% Promissory Notes or any of its 3% Debentures remain outstanding the Company is obligated not to declare dividends (other than stock dividends) and not to make payment on account of purchase, redemption or retirement of any shares of its stock to an extent where such dividend or payment plus the aggregate of all such prior dividends and payments made from January 1, 1946, shall exceed an amount equal to the Net Income of the Company from January 1, 1946, to and including the date of such declaration or payment plus $15,000,000, but such limitation does not restrict declaration or payment of dividends on Preferred Stock. At December 31, 1948, the part of Surplus-Undivided Profits not affected by this restriction was $46,699,380.28.

Report of Independent Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY:

We have examined the balance sheet of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1948, and the related statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

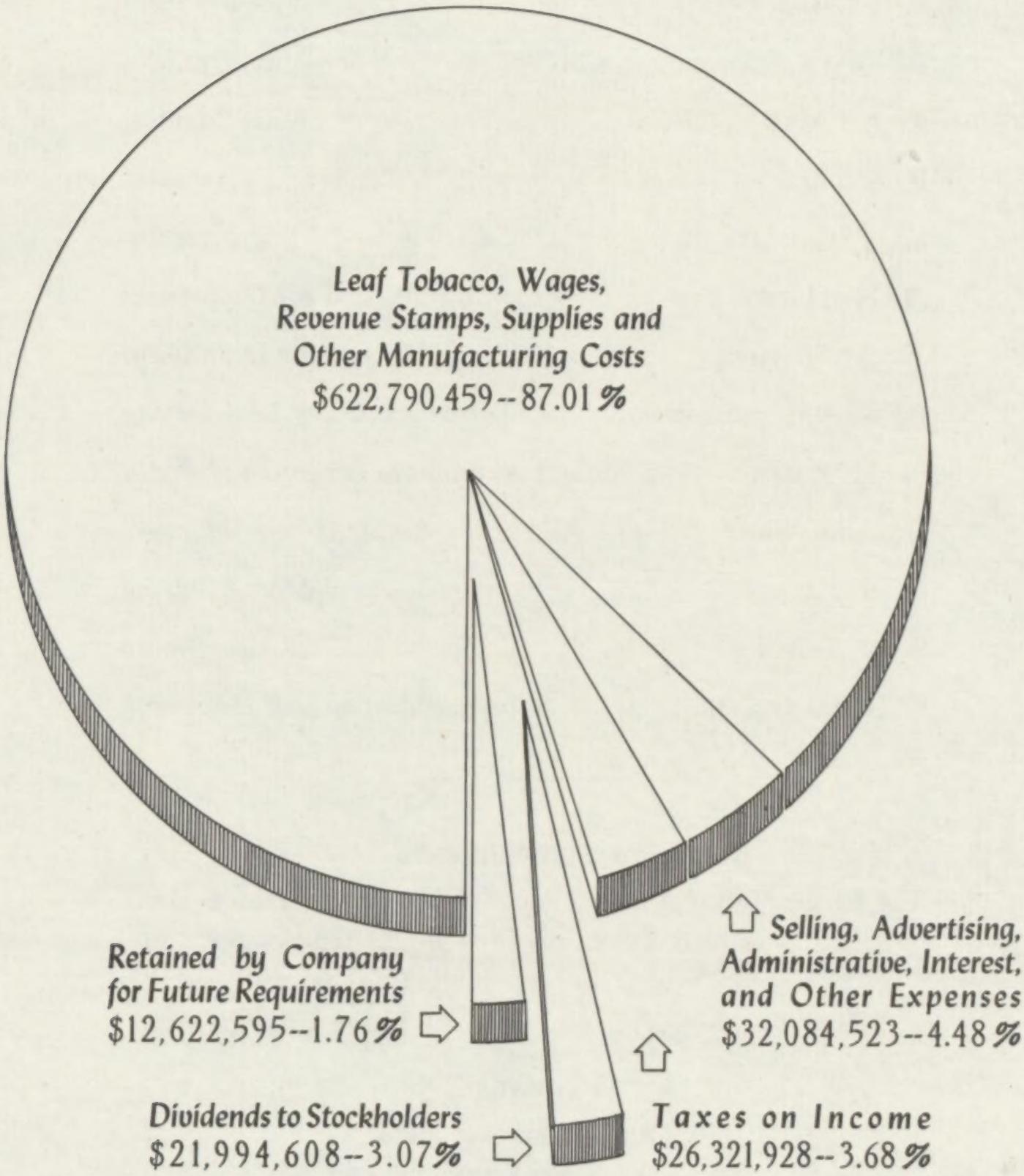
In our opinion, the accompanying balance sheet and statements of income and surplus present fairly the financial position of the Company at December 31, 1948, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants.

January 17, 1949.

Disposition of the Company's Total Income in 1948



Board of Directors

S. Clay Williams	*Chairman Board of Directors*
Jas. A. Gray	*Chairman Executive Committee*
John C. Whitaker	*President*
R. C. Haberkern	*Vice-President*
P. Frank Hanes	*Vice-President*
E. A. Darr	*Vice-President*
F. S. Hill	*Treasurer*
W. J. Conrad, Jr.	*Secretary*
H. N. Hardy	*General Manager Leaf Department*
W. T. Smither	*Manager Advertising Department*
R. G. Vallandingham	*Superintendent of Leaf Buying*
H. H. Ramm	*Solicitor and Assistant to Chairman of Board*
Bowman Gray	*Assistant Sales Manager*
H. S. Kirk	*Superintendent of Manufacturing*
S. M. Scott	*Comptroller*
S. B. Hanes, Jr.	*Superintendent of Leaf Processing*

Transfer Agents

The Chase National Bank
of the City of New York,
11 Broad Street,
New York, N. Y.

The First National Bank
of Jersey City,
1 Exchange Place,
Jersey City, N. J.

Registrar

Central Hanover Bank
and Trust Company,
70 Broadway,
New York, N. Y.

Principal Brands of the Company

CAMEL
CIGARETTES

Smoking Tobaccos

PRINCE ALBERT

GEORGE WASHINGTON • OUR ADVERTISER

STUD • TOP

Chewing Tobaccos

BROWN'S MULE • DAYS WORK

APPLE SUN CURED

REYNOLDS' NATURAL LEAF

REYNOLDS' SUN CURED

CUP • SCHNAPPS • HONEY CUT

STRATER'S NAT. LEAF TWIST

WINESAP • MICKY TWIST

TOP